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TAGS: ECON EFIN PGOV UY
SUBJECT: NEW CHARTER FOR CENTRAL BANK RAISES QUESTIONS

¶1. (SBU) SUMMARY: Parliament approved a new Central Bank charter on October 22 that expands the number of Board members, spins off the Superintendency of Saving Protection into an independent entity and consolidates the remaining superintendencies. The new charter falls short of giving more independence to the Bank, an aim of the bill as it was originally drafted. With amendments added by Parliament, the Central Bank must coordinate its inflation and exchange rate targets with the Ministry of Economy and, where agreement is not reached, the Ministry's position prevails. Another GOU goal to de-link the Board's appointment cycle from the electoral cycle was excluded and the charter gives increased importance to growth and employment targets; the original bill prioritized price stability. END SUMMARY.

¶2. (U) Parliament approved the new Central Bank charter on October 22; it was originally submitted in February 2006. The new charter expands the number of Board members from three to five, spins off the Superintendency of Saving Protection from the Bank to create an independent entity, and consolidates all remaining superintendencies (financial institutions, pension funds, capital markets and insurance) into a single unit. The new superintendency will also oversee the Financial Information Unit that guards against money laundering/terrorism financing issues.

¶3. (SBU) The GOU's original bill aimed to increase the Bank's independence from the Executive Branch as recommended by the IMF, but was watered-down in Parliament. Under the new charter, the President will continue to appoint Board members and they will all continue to serve for the same term. The new charter also creates a macroeconomic coordination committee in which three representatives from the Ministry of Finance and three from the Central Bank will set the Bank's price stability and exchange rate targets, as well as coordinate information on the Bank's scope of work and economic policy in general. In case of a tie, the Ministry's position will prevail.

¶4. (U) In addition to the GOU's goal to make inflation control a principal objective of the Bank, the new charter gives high priority to growth and employment objectives. In a newspaper interview, opposition National Party Senator Sergio Abreu indicated a group within the Frente Amplio conditioned its vote for the bill on the inclusion of growth and employment targets as equal to the goal of price stability.

¶5. (SBU) COMMENT: The Central Bank traditionally consults closely with the Ministry of Economy. While the current Minister of Economy is likely to continue to promote prudent Central Bank monetary policies, even in the face of election year pressures, that may not be the case in the future and the implementation of the charter bears close watching.

BAXTER